

**Management Advisory Report:
Efforts to Consolidate
Information Technology Services Staff
Continue to Need Attention**

July 2002

Reference Number: 2002-20-136

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 29, 2002

MEMORANDUM FOR DEPUTY COMMISSIONER FOR MODERNIZATION &
CHIEF INFORMATION OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Efforts to Consolidate
Information Technology Services Staff Continue to Need
Attention (Audit # 200220034)

This report presents the results of our review of the Internal Revenue Service's (IRS) efforts to implement corrective actions from a prior Treasury Inspector General for Tax Administration (TIGTA) report¹ related to consolidating all information systems staff and workload into the Information Technology Services (ITS) organization.

In summary, we found that the ITS organization has progressed in the consolidation efforts. Completed efforts include identifying all transition employees, as well as identifying the employees' related workload and customers. The ITS organization also worked with the National Treasury Employees Union to adopt a plan to consolidate transition employees who performed information systems support in the former district offices. This plan analyzed staffing requirements needed to support migrating workload and identified existing employees necessary to support the workload. As of April 1, 2002, the ITS organization had consolidated 383 non-ITS employees who were performing support work in the former district offices.

However, the ITS organization still needs to consolidate more than half of the identified groups performing ITS-related work and the remaining employees performing support work in the former regional, district, and service center offices. These groups and offices include over 600 employees.

¹ *Efforts to Consolidate Information Systems Staff Need Additional Attention* (Reference Number 2001-20-004, dated October 2000).

The delay in completing the transition can be attributed to several factors. When the new Deputy Commissioner for Modernization & Chief Information Officer reported to the IRS in 2001, he asked that certain reorganization activities be put on hold until studied further. One of the studies initiated was an ITS organization initiative (known as the Re-Tune) to reorganize its structure and staffing based on end-user needs. The ITS organization executives wanted to consider Re-Tune recommendations for input to consolidation plans, which contributed to delays in implementing corrective actions and monitoring plans developed in response to our prior report recommendations. These corrective actions included the need for ITS executive management involvement in obtaining agreement for group transition from the business operating divisions (BOD). During this audit, BOD and functional unit managers and executives expressed the same reluctance to release their information technology support staffs and related funding as noted in our prior report.

Although corrective actions and monitoring plans were not completed when planned, ITS management should now push for the completion of the actions needed to accomplish the consolidation goals. The Chief, ITS, with the help of the ITS organization's Re-Tune team, can facilitate completing the previously planned corrective actions.

As the TIGTA previously reported, incomplete or delayed consolidation of non-ITS staff will affect the success of the ITS organization's plan to operate in a shared services structure. The impacts continue to include delays in achieving efficiencies from pooled resources, standardized applications and equipment, consistent security guidelines and procedures, and optimal use of information systems resources to meet the prioritized needs of the agency. These delays affect the overall delivery of desired customer service levels that the ITS organization and the IRS plan to achieve.

Management's Response

Because we did not make any recommendations in this report, a formal response was not required. However, ITS management requested an extension to respond to our draft report from July 10, 2002, to July 17, 2002. As of July 25, 2002, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Scott Wilson, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

Attachment

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Background

The Modernization, Information Technology, and Security Services (MITS) function has reorganized to move toward a shared services structure¹ that will provide better customer service. The reorganization efforts involved consolidating all computer technology resources under the Deputy Commissioner for Modernization & Chief Information Officer (CIO). To reach the shared services structure, the Information Technology Services (ITS) organization realigned its own employees and began the process of identifying groups of non-ITS employees performing computer support work for the business units and functions and moving them into the ITS organization. Transition teams facilitated the plans to move the non-ITS employees into the ITS organization. The goal of these changes was to provide consistent and improved services to the Internal Revenue Service (IRS) and its customers.

The Treasury Inspector General for Tax Administration (TIGTA) issued a report in October 2000² that assessed the ITS organization's efforts to move toward a shared services structure. The TIGTA review reported that the ITS organization's efforts needed further attention to ensure the success of the non-ITS employee consolidation.

- Transition teams had not identified all employees for transition to the ITS organization.
- Transition team efforts to implement and finalize consolidation of employee groups had not progressed efficiently and effectively due to an absence of adequate transition team staffing and communication and untimely and insufficient executive involvement.
- The transition team needed to adopt a process to consolidate employees performing computer support in the IRS' former district offices.

¹ A shared services structure consolidates all information systems technology to achieve efficiencies from pooled resources, optimal use of information systems resources to meet the prioritized needs of the agency, standardized applications and infrastructure, and consistent security guidelines and procedures.

² *Efforts to Consolidate Information Systems Staff Need Additional Attention* (Reference Number 2001-20-004, dated October 2000).

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The report concluded by stating that incomplete or delayed migration of non-ITS staff will affect the success of the ITS organization's plan to operate in a shared services structure. The impacts include continued delays in achieving efficiencies from pooled resources, standardized applications and equipment, consistent security guidelines and procedures, and optimal use of information systems resources to meet the prioritized needs of the agency. These delays affect the overall delivery of desired customer service levels that the ITS organization and the IRS plan to achieve.

The IRS responded with planned corrective actions to the report's five recommendations. These planned actions were scheduled for completion by October 2001. In November 2001, the Deputy Commissioner for Modernization & CIO requested that the TIGTA perform a review of the status of the staff consolidation into the ITS organization.

This review was performed to assess the progress of ITS management's efforts to implement corrective actions related to consolidating all information systems staff and workload into the ITS organization. To accomplish our objective, we reviewed available documentation and interviewed executives, managers, and analysts located at the ITS organization's offices in New Carrollton, Maryland. We performed this review between January and May 2002 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Progress Has Been Made Toward Consolidating Employees

The ITS organization has made considerable progress in the consolidation efforts. Completed efforts include identifying all transition employees, as well as identifying the employees' related workload and customers. The ITS organization accomplished this using several transition teams in multiple phases. The most recent effort chartered two Functional Automation Support Teams (FAST) to identify and determine which employees to consolidate into the ITS organization. The FASTs identified 534 employees

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for consolidation in addition to the 887 employees assigned to non-ITS groups performing information systems work identified by earlier transition teams.

The ITS organization also worked with the National Treasury Employees Union to adopt a plan to consolidate transition employees who performed information systems support in the former district offices. This plan analyzed staffing requirements needed to support migrating workload and identified existing employees necessary to support the workload.

As of April 1, 2002, the ITS organization had consolidated 383 of the 534 employees identified by the FASTs for transition. In addition, 365 of the 887 employees assigned to non-ITS groups were consolidated.

Consolidation Efforts Continue to Need Management's Attention

The ITS organization still has to consolidate more than half of the employees in non-ITS groups performing ITS-related work and the remaining employees identified by the FASTs. Our review of the corrective action status on January 11, 2002, showed that the ITS organization had not yet completed implementation of three of the corrective actions planned in response to the recommendations in our prior report.

- *Give immediate priority to adequately staff the Phase III transition team to meet implementation objectives and the October 1, 2000, target completion date.*

Staffing for the Phase III transition team did not increase. The team's formal assignment ended in October 2000, although it did not complete the efforts to consolidate the remaining groups.

- *Increase executive involvement and refer unresolved issues to the Commissioner. Success of this plan item is essential to moving the Memorandum of Understanding (MOU)³ process forward.*

³ An MOU is a documented high-level agreement between the ITS organization and other IRS divisions and functions outlining the terms for moving the staff and resources to the ITS organization.

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Planned corrective actions included ITS organization executive involvement to assist in the group consolidation process, with monitoring plans and progress reports to track accomplishments. Although ITS organization executives were involved early in guiding the consolidation process, sufficient emphasis was not maintained to ensure the consolidation was completed as planned. Consolidation activities were discussed at ITS organization executive staff meetings, but these executives did not develop or maintain adequate monitoring plans and progress reports.

When the new Deputy Commissioner for Modernization & Chief Information Officer reported to the IRS in 2001, he asked that certain reorganization activities be put on hold until studied further. One of the studies initiated was an ITS organization initiative (known as the Re-Tune) to reorganize its structure and staffing based on end-user needs. The ITS organization's executives wanted to consider Re-Tune recommendations for input to consolidation plans. The Re-Tune was initiated after the corrective actions were developed to address our prior report.

- *Alleviate functional management concerns about service levels. To accomplish this, ITS executive involvement should be augmented with information about the Business Results (customer service levels) developed for the ITS Balanced Measures that were approved in March 2000. These measures will also show the Business Results that ITS will be held accountable for providing.*

Service Level Agreements (SLA) set level of service baselines and focused performance measures that the ITS organization will accomplish. ITS executive management is reemphasizing SLA development in conjunction with the Commissioner's strategic planning initiatives. The Deputy Commissioner is tracking SLA development for implementation by fiscal year 2003.

The IRS devoted a great deal of effort to develop designs and plans to implement its shared services structure. The IRS' reorganization consultant, Booz-Allen & Hamilton

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(BAH),⁴ as well as its own transition teams, determined that realigning to a shared services organization will provide a substantial savings in operations costs, as well as greatly enhance the manner in which the ITS organization serves customers.

The ITS organization has made some progress in the staff consolidation effort but still has a significant portion to complete

Plans to consolidate non-ITS employees performing computer support work began in November 1998. At that time, the Phase IIA transition team performed the transition effort that involved identifying candidate groups for consolidation. Further work continued during Phase IIB to develop and apply the MOU process to obtain agreements for transition of non-ITS staff and workload to the ITS organization. The Phase III transition team continued this process, with targeted implementation by October 2000.

The Phase III transition team assignment ended in October 2000, without completing the effort to consolidate the remaining candidate groups. Informal efforts continued by two Phase III transition team members. Also, the establishment of the Division Information Officers (DIO)⁵ has brought them into the consolidation effort. However, the DIOs have become involved only when an MOU was brought to their attention for action.

The table on the next page presents the status of the consolidation candidate groups as of our October 2000 TIGTA report and the consolidation status as of April 1, 2002.

⁴The IRS selected BAH to conduct a validation study and risk assessment of the IRS' modernization plan.

⁵ DIOs manage demand and coordinate ITS service with the IRS' business operating divisions and functional units.

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STATUS OF CANDIDATE GROUP CONSOLIDATION

	Groups May 2000	Groups April 2002		FTEs⁶ May 2000	FTEs April 2002
Groups/FTEs Consolidated w/MOUs	3	16		160	365
MOUs in Various Draft Stages	17	3		325	71
MOUs Not to Consolidate	0	2		0	89
MOUs Not Planned	1	7		86	332
No MOU Activity	11	5		248	30
Sub-total: Groups/FTEs Not Consolidated	29	17		659	522
Total Groups/FTEs	32	33⁷		819	887

Source: The ITS Organization Consolidation Status as of April 1, 2002. Appendix IV presents details about the status of each consolidation candidate group in May 2000 and April 2002.

As of April 2002, only about one-half of the groups had been consolidated into the ITS organization. Our review of the April 2002 group consolidation status showed that 16 groups had signed and completed MOUs to move staff and the associated funding to the ITS organization. The transitioned groups have continued to perform their previously assigned work.

However, business operating division (BOD) and functional unit management officials responsible for nine groups have

⁶ A Full-Time Equivalent (FTE) workyear is the planned use of 2,087 straight time paid hours in a fiscal year including leave and training.

⁷ The number of consolidation groups increased to 33 because 1 group split into 2 groups.

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stated that they do not plan to participate in the ITS organization consolidation (includes two groups with MOUs not to consolidate). These managers and executives expressed the same reluctance to release their staff and resources as reported in our previous report. They:

- Believe they are, or should be, exempt from the ITS organization consolidation process because of the mission of their organization or the needs of their customers.
- Do not want to transfer the funds related to transition employees.
- Disagree on the number of candidate positions for consolidation.
- Question the level of service that will be provided to maintain their systems if they allow candidate migration to the ITS organization.

Neither the ITS organization nor BOD and functional unit management is actively pursuing consolidation for five groups.

The IRS Commissioner responded to our prior report with the following actions to address these conditions: *“The Deputy CIO (Operations) [now the Chief, ITS] will personally attend to any unsigned MOUs. The Director, Strategic Customer Support, and the Director, Infrastructure Program Management Office, will oversee progress on completing the MOUs. We will also assess the remaining MOUs to determine whether involvement by the CIO or Commissioner is appropriate, and make recommendations for the next steps. We will continue this process until all activities are completed and all issues are resolved.”*

To monitor the progress of the corrective actions, the response included the following plan: *“The Director, Infrastructure Program Management Office, will provide a monthly MOU completion progress report to the Deputy CIO, Operations regarding the overall progress of the MOU activities. The IS Organization Modernization Executive Steering Committee will conduct monthly reviews*

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to ensure the appropriate level of attention and decision support is provided to IS Operations Phase III transition activities for MOUs.”

Although the ITS organization’s management did not complete these actions and monitoring plans, following these actions and plans should provide the executive involvement needed to accomplish consolidation goals.

The Chief, ITS, with the help of the DIOs and the ITS Organization’s Re-Tune team, can facilitate the completion of previously planned corrective actions

Although the Chief, ITS, is responsible for attending to the unsigned MOUs, no one individual or group has actively pursued coordinating the non-ITS group consolidation effort. The January 2002 status of the corrective actions noted that implementing these actions is contingent upon completion of the pending MITS reorganization. The completion of the corrective actions may be facilitated through the Chief, ITS’ use of the DIOs and the MITS Re-Tune Field Organization Design Team.

The ITS organization created 10 DIO positions under the IRS’ Organization Modernization plan. The DIOs are charged with acting as liaisons between the ITS organization and the BODs and functional units they represent. The DIO duties put them in a favorable position to assist the Deputy CIO (Operations) in completing the consolidation efforts.

The ITS organization is attempting to “re-tune” its structure based on end-user needs. The Re-Tune team is focusing on end-user support, which includes help desks and on-site desktop support. To accomplish this, the Re-Tune team is quantifying end-user needs, or demand, and ITS employees, or supply. They will then attempt to match demand and supply. The Re-Tune team’s final report will detail an ITS organization better positioned to service its customers.

The Re-Tune will not directly affect all non-ITS consolidation candidate groups. While some of the consolidation candidate groups and those that have already transferred to the ITS organization provide end-user support, many do not. Many of these employees support

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BOD or functional unit specific programs and activities. The Re-Tune effort will not account for these employees or their workload. Further, the Re-Tune team is calculating “supply” based on on-rolls ITS organization employees. It is not accounting for consolidation candidate staffing who have not yet transferred to the ITS organization.

While the Re-Tune effort is not directly affecting all consolidation candidate groups, it could play a significant role in identifying candidate group workload and properly aligning the consolidation candidate groups with the users they support.

The ITS organization needs to complete the consolidation to achieve planned efficiencies

An incomplete or delayed consolidation of non-ITS staff will limit the ITS organization’s ability to operate in a shared services environment. The ITS organization’s plans to reorganize to a centralized shared services organization were initiated to achieve monetary savings through economies of scale and increased effectiveness of customer service through effective use of a shared skills base.

The consolidation of staffing into the ITS organization would allow for a centralized help desk and a centrally managed, but geographically deployed, on-site support organization. A 1999 analysis performed by BAH and the ITS organization estimated that centralizing these activities would provide the ITS organization an annual labor savings of \$22 million dollars (\$6 million in help desk, \$16 million in on-site support). These estimates are conservative in that at that time the ITS organization had identified only 671 consolidation employees. That staffing later increased to an estimated 1,353 employees. Given that the number of employees to be consolidated doubled, the potential annual labor savings could have been significantly higher than the \$22 million estimated in the 1999 analysis if the ITS organization had implemented the staff consolidation by the October 2000 target.

Management’s Response: Because we did not make any recommendations in this report, a formal response was not required. However, ITS management requested an

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extension to respond to our draft report from July 10, 2002, to July 17, 2002. As of July 25, 2002, management had not responded to the draft report.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the progress of Information Technology Services (ITS) management's efforts to implement corrective actions from a prior Treasury Inspector General for Tax Administration (TIGTA) report¹ related to consolidating all information systems staff and workload into the ITS organization.

- I. Assessed the impact of the unimplemented corrective actions to our previously reported recommendations on the consolidation of the non-ITS employees to the ITS organization.
 - A. Determined the current status of the Memoranda of Understanding (MOU) and the identification of the related workload for the 32 non-ITS groups identified during Transition Phase IIB and reported previously by the TIGTA.
 - B. Determined the current status of any additional groups identified since the completion of the prior audit for consolidation into the ITS organization.
- II. Identified and evaluated the ITS organization's current plans for completing the consolidation of information technology activities.

¹ *Efforts to Consolidate Information Systems Staff Need Additional Attention* (Reference Number 2001-20-004, dated October 2000).

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
Chief, Information Technology Services M:I
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaison:
 Chief, Information Technology Services M:I

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Appendix IV

**Memoranda of Understanding Status
for Consolidation Candidate Groups**

Group	Business Area	Potential Transition Employees May 31, 2000	Transition Status as of May 31, 2000	Potential Transition Employees April 2002	Transition Status as of April 2002
Appeals' Field Information Systems Staff	Appeals	44	Delayed; Regressed from Signature Process	54	MOU ¹ signed September 2001
Appeals' National Office Information Systems Division	Appeals	40	Delayed; Regressed from Signature Process	40	MOU signed September 2001
Support Services Dallas Development Group	Agency-Wide Shared Services	22	Signature Process	22	MOU signed March 2001
Procurement Oxon Hill	Agency-Wide Shared Services	5	Placed on Hold; Regressed from Work in Progress	5	No MOU planned
Procurement New Carrollton Federal Building	Agency-Wide Shared Services	94	Placed on Hold; Regressed from Work in Progress	94	No MOU planned. Reassessing job series
Field, Region, Host Sites & District Offices	Agency-Wide Shared Services	47	Placed on Hold; Regressed from Work in Progress	47	No MOU planned; may move staffing under FAST II ²

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Group	Business Area	Potential Transition Employees May 31, 2000	Transition Status as of May 31, 2000	Potential Transition Employees April 2002	Transition Status as of April 2002
Human Resources Northeast Region	Agency-Wide Shared Services	2	Work in Progress	1	No MOU planned
Chief Financial Officer Information Systems Group: Financial Services and Support	Chief Financial Officer (CFO)	16	Delayed; Regressed from Signature Process	12	MOU signed December 2000 for 12 FTEs ³
Chief Financial Officer Information Systems Group: Automated Financial System	CFO	16	Delayed; Regressed from Signature Process	12	MOU not to consolidate 12 FTEs
Management Information & Analysis Team	Collection (SB/SE) ⁴	4	No Progress	4	MOU signed February 2001
Excise Files Information Reporting System	Compliance (Examination & Collection) (SB/SE)	1	No Change; Work in Progress	1	MOU signed November 2000
Midwest Automated Compliance System Development Group Brooklyn Center, MN	Compliance (Examination & Collection) (SB/SE)	15	Signature Process	15	MOU in Draft Process
Report Generation System Dallas Development Group	Compliance (Examination & Collection) (SB/SE)	2	Signed MOU	2	MOU signed October 1999
Counsel's Information Systems Division	Counsel	142	Signed MOU	142	MOU signed August 2001

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Group	Business Area	Potential Transition Employees May 31, 2000	Transition Status as of May 31, 2000	Potential Transition Employees April 2002	Transition Status as of April 2002
Criminal Investigation	Criminal Investigation	86	Submitting an Exception Request	154	No MOU being planned; MOU not to consolidate expired October 2001
Automated Insolvency	Customer Service (SB/SE)	8	Signature Process	8	MOU signed May 2001
Automated Liens System and Entity	Customer Service (SB/SE)	14	Signature Process	14	MOU in Draft Process
Centralized Inventory Distribution System	Customer Service (SB/SE)	Undetermined	Work in Progress	Undetermined	Unknown
Service-wide Electronic Research Program Cincinnati Service Center	Customer Service (SB/SE)	3	Work in Progress	2	MOU signed September 2001
Program Management Division Modernization Branch Automation Section	Customer Service (SB/SE)	14	Placed on Hold; Regressed from Signature Process	14	Unknown
Compliance Division Research & Analysis Staff Brookhaven Service Center	Customer Service (SB/SE)	7	Placed on Hold; Regressed from Signature Process	7	MOU signed December 2000
Compliance Division Research and Analysis Staff Ogden Service Center	Customer Service (SB/SE)	10	Placed on Hold; Regressed from Signature Process	12	MOU signed November 2000

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Group	Business Area	Potential Transition Employees May 31, 2000	Transition Status as of May 31, 2000	Potential Transition Employees April 2002	Transition Status as of April 2002
Workforce and Performance	Customer Service (SB/SE)	3	Placed on Hold; Regressed from Work in Progress	3	MOU signed June 2000
Telecommunications Staff	Customer Service (SB/SE)	Undetermined	Work in Progress	Undetermined	Unknown
Multimedia	Customer Service (SB/SE)	11	Work in Progress	11	Unknown
Electronic Filing Andover Service Center	Customer Service Field Operations (SB/SE)	5	Work in Progress	5	Unknown
International Information Technology Division	International (LMSB) ⁵	41	Work in Progress	42	MOU in draft/ signature status
National Office Artificial Intelligence Group	Research and Statistics of Income (CFO/NHQ) ⁶	17	Delayed	17	No MOU planned
National Office Compliance Data Warehouse Group	Research and Statistics of Income (CFO/NHQ)	14	Delayed	14	No MOU planned
Statistics of Income	Research and Statistics of Income (CFO/NHQ)	77	Placed on Hold	77	MOU not to consolidate per Treasury Directive 150-02
Austin Management Information Systems Group	Submission Processing (W&I) ⁷	12	Placed on Hold; Regressed from Signature Process	12	MOU signed October 2000

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Group	Business Area	Potential Transition Employees May 31, 2000	Transition Status as of May 31, 2000	Potential Transition Employees April 2002	Transition Status as of April 2002
Customer Service and Submission Processing Groups Philadelphia Service Center	Submission Processing (W&I)	31	Placed on Hold; Regressed from Signature Process	28	MOU signed August 2000
Employee Plans/Exempt Organizations Information Technology Division	Tax Exempt and Government Entities (TE/GE)	16	Signed MOU	16	MOU signed November 1999
Total Number of Transition Employees		819		887	

The first four columns were presented in the Treasury Inspector General for Tax Administration audit report, *Efforts to Consolidate Information Systems Staff Need Additional Attention* (Reference Number 2001-20-004, dated October 2000).

¹ A Memorandum of Understanding (MOU) is a documented high-level agreement between the ITS organization and other IRS divisions and functions outlining the terms for moving the staff and resources to the ITS organization.

² The ITS organization chartered two Functional Automation Support Teams (FAST) to identify and determine which employees from the former district, regional and service center offices to consolidate into the ITS organization.

³ A Full-Time Equivalent (FTE) work year is the planned use of 2,087 straight time paid hours in a fiscal year including leave and training

⁴ Small Business/Self -Employed (SB/SE) is a business operating division in the Internal Revenue Service (IRS).

⁵ Large and Mid-Size Business (LMSB) is a business operating division in the IRS.

⁶ National Headquarters (NHQ)

⁷ Wage and Investment (W&I) is a business operating division in the IRS.